

# Construction

Quarterly analysis of construction activity

Second quarter 2018  
Vol. 33 No.2

**Editor: Craig Lemboe**

Email: [cjl@sun.ac.za](mailto:cjl@sun.ac.za)

Tel: +27 21 808 9780

**Technical assistance:**

Ntombizanele Bakaqana

**© Stellenbosch University**

This publication is confidential and only for the use of the intended recipient. Copyright for this publication is held by Stellenbosch University. Although reasonable professional skill, care and diligence are exercised to record and interpret all information correctly, Stellenbosch University, its division BER and the author(s)/editor do not accept any liability for any direct or indirect loss whatsoever that might result from unintentional inaccurate data and interpretations provided by the BER as well as any interpretations by third parties. Stellenbosch University further accepts no liability for the consequences of any decisions or actions taken by any third party on the basis of information provided in this publication. The views, conclusions or opinions contained in this publication are those of the BER and do not necessarily reflect those of Stellenbosch University.

For more information on the BER's services please visit: [www.ber.ac.za](http://www.ber.ac.za)

# Contents

- Introduction ..... 1
- Construction survey results, 2018Q2 ..... 1
  - No respite for civil contractors ..... 1
- In conclusion ..... 3
- Technical note ..... 6

# Introduction

This report outlines some of the key findings of the BER's 2018Q2 construction survey, including the **FNB/BER Civil Confidence Index** as well as related data.

## Construction survey results, 2018Q2<sup>1</sup>

### No respite for civil contractors

The **FNB/BER Civil Confidence index** rose marginally to 15 index points, from an all-time low of 12 in 2018Q1 (Figure 1).

Figure 1: Civil contractors, business confidence



Source: BER

---

Construction activity continued to decline in Q2

---

Growth in civil construction work remained weak (very likely contracting). A net 62% of respondents stated that construction activity was lower in 2018Q2 compared to a year earlier, largely unchanged from 60% in 2018Q1. Stats SA reported a 2.6% y-o-y decline in the real value of construction works in 2018Q1. This quarter's survey results suggest a similar fall is on the cards for 2018Q2.

In addition to the poor performance with respect to activity this quarter, respondents own expectations for construction activity next quarter (2018Q3) are also quite downbeat.

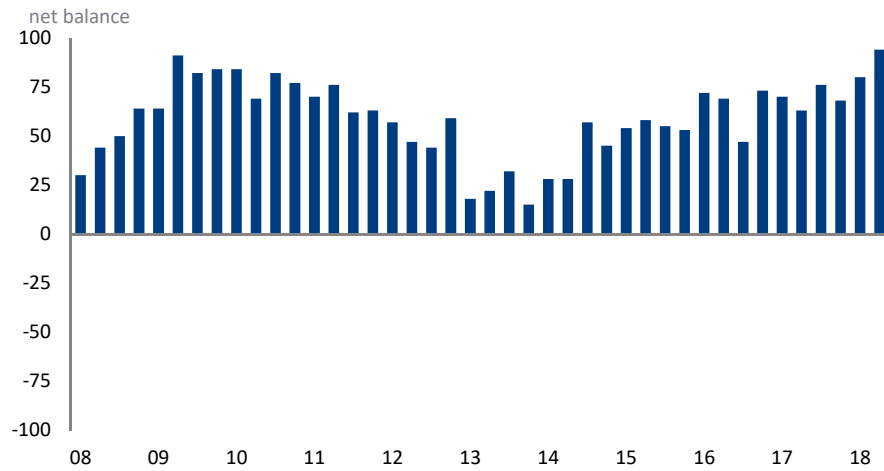
Tendering price competition also reflected the poor state of construction activity. Whereas a net 79% of respondents indicated that tendering price competition

---

<sup>1</sup> This survey was conducted between 23 April and 5 June 2018.

was keener relative to the same time last year in 2018Q1, 94% stated as such in 2018Q2 (Figure 2).

Figure 2: Civil contractors, tendering competition

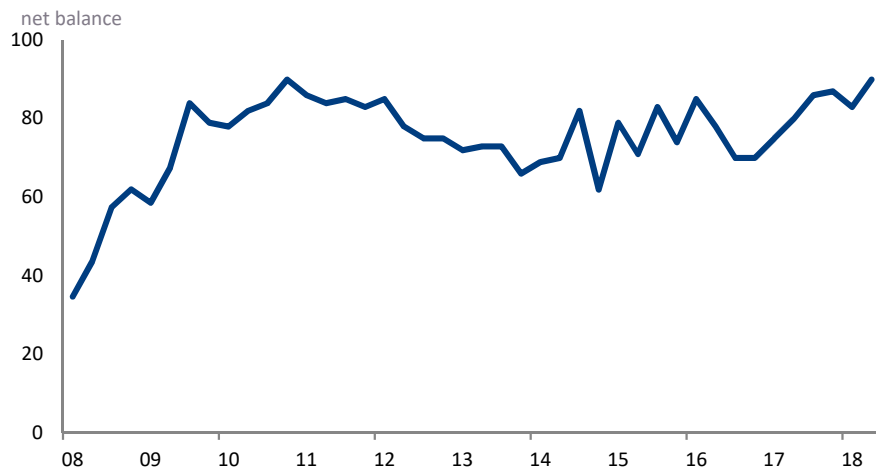


Source: BER

Growth in construction activity likely to remain weak as new demand becomes scarcer

The weak demand for civil construction work is set to remain over the near term. Not only has it become clearer that public sector spending on infrastructure is likely to be limited compared to previous years, but the mining sector (a key source of private sector work for civil contractors) remains under pressure. In 2018Q2, 90% of respondents noted that a lack of new demand for civil construction is a constraint to business operations (Figure 3). This is up from 83% in 2018Q1.

Figure 3: Civil contractors, lack of new demand as a constraint



Source: BER

## In conclusion

The civil construction sector remains in the doldrums. After falling to a record low of 12 in 2018Q1, the **FNB/BER Civil Confidence Index** rose marginally to a still very weak 15. The relative pessimism in the sector is supported by the underlying data, especially with regards to construction activity which points to a continued contraction in the sector in 2018Q2. Looking ahead, survey respondents are increasingly concerned about the lack of new construction demand which continues to hamper business operations.

## Civil Construction : Total

	17Q3	17Q4	18Q1	18Q2	18Q3*
<b>Business confidence</b> <sup>3</sup>	<b>15</b>	<b>19</b>	<b>12</b>	<b>15</b>	
Change in business conditions <sup>1</sup>	-66	-61	-50	-65	-56
Growth in construction activity <sup>1</sup>	-60	-65	-60	-62	-61
Growth in number of people employed <sup>1</sup>	-45	-47	-55	-55	-56
Growth in profitability of the business <sup>1</sup>	-65	-61	-70	-63	-59
Tendering competition <sup>1</sup>	77	67	79	94	
Weighted percentage rating shortage of skilled labour a constraint <sup>2</sup>	33	29	28	32	
Weighted percentage rating inadequate supply of construction materials a constraint <sup>2</sup>	15	13	17	9	
Weighted percentage rating insufficient demand for construction work a constraint <sup>2</sup>	86	87	83	90	
Weighted percentage rating firm's inadequate access to credit a constraint <sup>2</sup>	26	32	25	18	

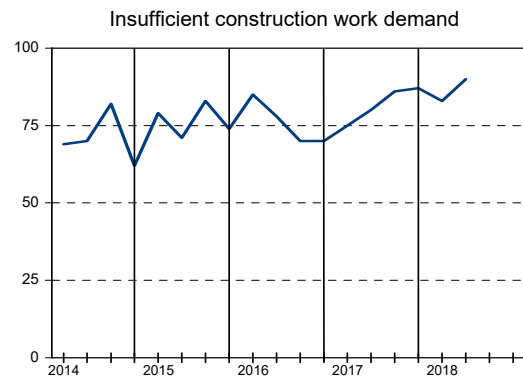
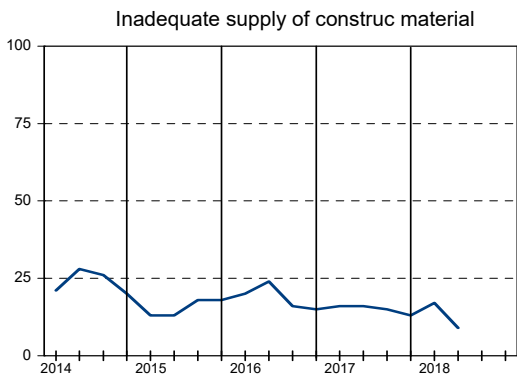
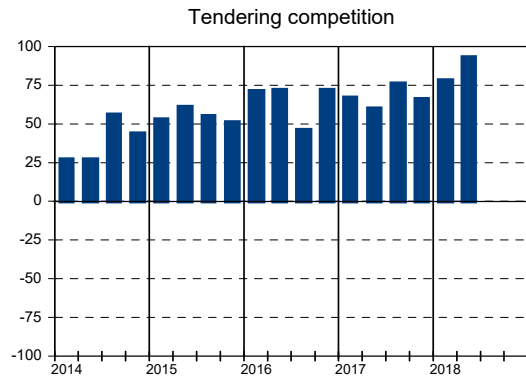
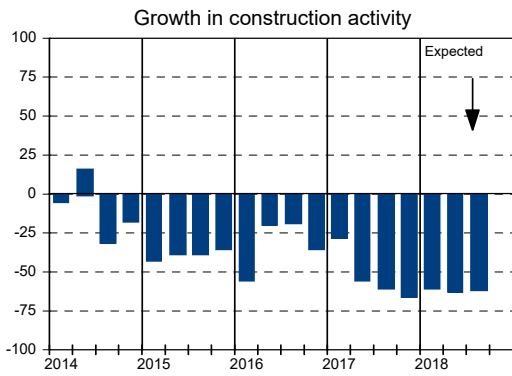
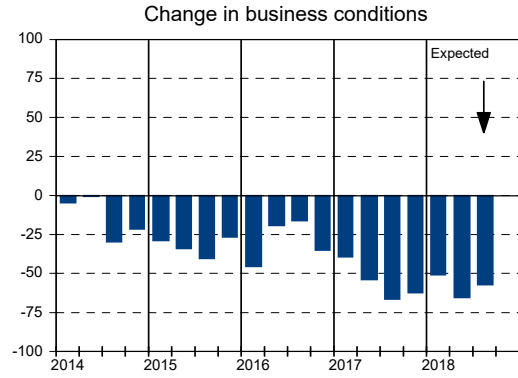
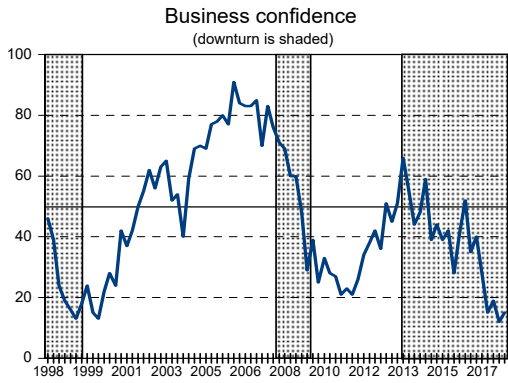
\* Expected.

1 Net balance.

2 The index is calculated as follows: The answers of respondents rating a particular constraint as "serious" is weighted by 0,67%; those rating it as "slightly" by 0,33% and those rating it as "not a constraint at all" is discarded. The results are then multiplied by  $100/67 = 1,49$  to convert it to an index that can vary between 0 and 100.

3 Percentage gross rating prevailing business conditions as satisfactory.

Blank spaces indicate data not available or not asked for.





# Technical note

Short-term planning is hampered as numeric (official) data is released with a time lag. *Business survey results reveal what happened between the release of the last official figures and the current state of affairs.* The results not only reveal beforehand the direction of sales, selling prices, employment etc. (for which official figures are published), but also provide unique information, such as business confidence, rating of business conditions and respondents' expectations (or forecast) for the next quarter for which no official figures exist. It is now widely recognised that these subjective individual expectations play a key role in economic developments. Furthermore, the survey results of successive quarters *provide a means of tracking cyclical movements, pinpointing trend changes* and establishing forecasts.

The survey results are obtained from questionnaires completed by senior executives in the trade, manufacturing and building sector during the last month of every quarter. The business survey questionnaire contains a small number of questions. These questions are qualitative in nature, e.g. "Compared to the same quarter a year ago, are the volume of sales up, the same or down?" No figures are requested. The sample of executives remains the same from one survey to the next. A panel is in effect established. The sample is divided according to main sectoral categories. Each firm gets a weighting in relation to turnover or size of workforce to provide for widely differing sizes. Participants have to complete a "participant details form" every few years to ensure that they are correctly classified and to provide for changes in turnover. The list of participants is also reviewed every few years to ensure an agreeable representation of the universe.

Most of the responses are converted into net balances. For example, if the percentage of respondents rating sales volumes higher / the same / lower than a year ago is as follows;

Higher	Same	Lower
70	10	20

then we can conclude that the majority of participants experienced higher sales. A net majority (i.e. the percentage of respondents rating sales higher less the percentage rating sales lower) of 50% is registered in the above example. A net majority of -10% for example would have indicated a decline in sales volumes compared to a year ago. A value of zero therefore indicates no change, between 0 and 100 reflects a rise (or improvement) and between 0 and -100 a decline (or deterioration) compared to the same quarter a year ago.

The responses relating to business confidence and constraints are presented as **percentages**. For example, business confidence of 10 would indicate that 10% gross of the respondents rated prevailing business conditions as satisfactory. These data series vary between zero and 100. A value of zero reflects an extreme lack of confidence (or absence of constraint) and 100 extreme confidence (or most severe constraint). Furthermore, respondents have to rate the present situation and not how it compares with that of the same quarter a year ago as in the case of the "net balance" questions.